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Annual Report 1976



Finlayson Enterprises Ltd.

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FINLAYSON ENTERPRISES
LTD.

INTERIM REPORT
TO SHAREHOLDERS

FOR THE SIX MONTHS ENDED
JUNE 30, 1976

To the Shareholders of

FINLAYSON ENTERPRISES LTD.

Your Company had excellent sales and profits for the first half of the year 1976. Total sales increased 30% and after tax profits rose from \$6,455 to \$135,474 as compared with the similar period of last year. As a result, earnings (after extraordinary item) amount to \$1.47 per common share after providing for dividends on preferred shares.

The increase in demand which was felt in the last half of 1975 carried over into 1976. In the first quarter, sales and profits were exceptionally high. The introduction of new products in all our divisions was partially responsible for this uptrend in sales. However, since March, particularly in the fragrance and infants wear divisions, we have noted a slowdown which it is hoped will be of a temporary nature. Department stores are reporting declines in unit retail sales, excessive inventories and a reduction in their "open to buy" positions.

Our second half year sales are normally much greater than the first half and unless business conditions deteriorate, the same seasonal pattern is expected. However, we are budgeting for a much higher tax incidence and this will affect our profit position during the latter half. Despite this, total 1976 results should show an improvement over recent years.

R. W. FINLAYSON,
President

August 12, 1976

FINLAYSON ENTERPRISES LTD.

Consolidated Statement of Profit and Loss

(Unaudited)

	Six Months Ended June 30, 1976	Six Months Ended June 30, 1975
Sales	\$3,478,876	\$2,669,786
Profit (Loss) on Operations	169,225	(8,541)
Provision for Income Taxes (refundable)	77,728	(4,139)
Profit (Loss) on Operations before Extraordinary Item	91,497	(4,402)
Extraordinary Item—recovery of income tax through carry-forward of loss of prior year	43,977	10,857
Net Profit	\$ 135,474	\$ 6,455
Earnings (Deficiency) per Common Share after providing for dividends on Preferred Shares:		
Before Extraordinary Item	\$0.906	(\$0.327)
After Extraordinary Item	\$1.471	(\$0.187)

Consolidated Statement of Changes in Financial Position

(Unaudited)

	Six Months Ended June 30, 1976	Six Months Ended June 30, 1975
Source of Funds		
Consolidated Net Profit	\$ 135,474	\$ 6,455
Add: Depreciation, a non-cash outlay	23,135	30,882
Deferred Income Tax	23,995	—
Funds provided from operations	\$ 182,604	\$ 37,337
Application of Funds		
Net Acquisition of Fixed Assets	29,862	24,627
Dividends: Preferred Shares	21,011	21,011
Redemption of Preferred Shares	77,817	—
Increase in Cash Value of Life Insurance Policies	1,454	1,453
Reduction of Long Term Debt	—	1,498
Total Funds Applied	\$ 130,144	\$ 48,589
Increase (Decrease) in Consolidated Working Capital	\$ 52,460	(\$ 11,252)
Consolidated Working Capital at Beginning of Period	1,456,112	1,422,836
Consolidated Working Capital at End of period	\$1,508,572	\$1,411,584



Finlayson Enterprises Ltd.

OUR NEW HEAD OFFICE



Our new premises are located in Etobicoke, a suburb of Toronto, at 833 Oxford Street, close to the junction of the Queen Elizabeth Highway and Islington Avenue. Approximately 47,000 square feet of space provide facilities for manufacturing, warehousing, showrooms and offices. In addition to the Head Office, the building contains the Toronto operations of Beauty Creations Limited and the Griffiths-Kerr Sales Division.



Finlayson Enterprises Ltd.

DIRECTORS

G. A. BODDY—Fergus, Ontario
F. B. BROOKS-HILL—Oakville, Ontario
R. W. FINLAYSON—Toronto, Ontario
R. H. HOPPE—Montreal, P.Q.
D. A. McINTOSH, Q.C.—Toronto, Ontario
H. SUTHERLAND, Q.C.—Toronto, Ontario
R. G. WILSON—Burlington, Ontario

OFFICERS

R. W. FINLAYSON, *President*
I. E. FINLAYSON, *Executive Vice-President*
G. A. BODDY, *Vice-President*
R. G. WILSON, *Vice-President*
H. SUTHERLAND, Q.C., *Secretary*
J. C. LONGWORTH, *Treasurer*

HEAD OFFICE

833 Oxford Street, Toronto, Ontario, Canada M8Z 5X4

REGISTRAR AND TRANSFER AGENT

CANADA PERMANENT TRUST COMPANY
Toronto, Ontario
Winnipeg, Manitoba

BANKERS

THE BANK OF NOVA SCOTIA
Toronto, Ontario



Finlayson Enterprises Ltd.

To the Shareholders of
FINLAYSON ENTERPRISES LTD.

The demand for the products our Company sells was at a high point during the last quarter of the calendar year 1975 and continued into the first quarter of the year 1976. Since then, sales have stabilized at a lower level. Largely as a result of an excellent first half-year, sales in the year 1976 increased 14% over the year 1975. Total net profit after all charges rose from \$161,317 in 1975 to \$228,221 in 1976, an increase of 41%. As a result, earnings per common share advanced from \$1.53 in 1975 to \$2.43 in 1976.

Sales in each of the operating divisions showed substantial increases, with the Beauty Creations fragrance division showing a gain of over 24% in regular sales. The domestic textile division also experienced excellent sales and profits. The infants wear division profits were also at a high level.

During the period from December, 1976 to February, 1977 the Company moved its head office and two of its divisions, Beauty Creations and Griffiths-Kerr, from inadequate quarters in the downtown district of Toronto to larger and more suitable premises at 833 Oxford Street in Etobicoke, a western suburb of Toronto. The new building is illustrated in this report. The moving costs, leasehold improvements and the purchase of necessary fixed assets were substantial. While these will increase our expenditures, they should, in due course, create greater operating efficiencies and, in addition, will allow us to handle an increased volume of sales for these two operations. It will be some time before we are able to calculate accurately the continuing increase in costs and its effects on profits.

Turning to the outlook for the year 1977, we are budgeting for an increase in sales of 26%. Results for the first quarter would indicate, despite unsettled economic conditions, that this volume can be reached. Our forecast for net profit after all charges in 1977 is relatively unchanged from 1976. While our profits before income tax would indicate a large growth, net income taxes payable will be much higher. Furthermore, another serious adverse factor has occurred with the drop in the value of the Canadian dollar against the U.S. dollar and the French franc. This affects our cost of goods imported from these countries. Hopefully a clearer picture will develop before our mid-term report is issued.

R. W. FINLAYSON
President

April 14, 1977



Finlayson Enterprises Ltd.
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

ASSETS

	1976	1975
CURRENT		
Cash	\$ 30,344	\$ 22,394
Accounts receivable	1,672,828	1,432,976
Merchandise inventories, at lower of cost and net realizable value. . .	1,671,332	1,572,370
Income taxes refundable	—	10,175
Prepaid expenses	152,861	117,077
TOTAL CURRENT ASSETS.	3,527,365	3,154,992
FIXED		
Equipment, automotive equipment and leasehold improvements, at cost	696,633	623,625
Less accumulated depreciation	457,594	439,900
TOTAL FIXED ASSETS.	239,039	183,725
OTHER		
Cash value of life insurance policies	61,099	58,199
Approved on behalf of the Board:		
R. W. FINLAYSON, <i>Director</i>		
G. A. BODDY, <i>Director</i>		
	<u>\$3,827,503</u>	<u>\$3,396,916</u>

AUDITORS' REPORT

To the Shareholders

FINLAYSON ENTERPRISES LTD.

We have examined the consolidated balance sheet of Finlayson Enterprises Ltd. and subsidiary companies as at 31 December 1976 and the consolidated statements of retained earnings, income and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at 31 December 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TORONTO, ONTARIO, 15 March 1977

DUNWOODY & COMPANY
Chartered Accountants

as at 31 December 1976

LIABILITIES

	1976	1975
CURRENT		
Bank indebtedness	\$ 683,748	\$ 332,183
Note payable, note 2	115,000	155,000
Accounts payable and accrued charges	1,097,615	1,093,696
Income and withholding taxes	105,557	56,503
Current portion of long term debt.	—	61,498
TOTAL CURRENT LIABILITIES	2,001,920	1,698,880
DEFERRED INCOME TAXES	24,612	—
	2,026,532	1,698,880

SHAREHOLDERS' EQUITY

SHARE CAPITAL

Authorized		
2,150,941 6% cumulative preferred shares of par value		
\$1 each, redeemable at the amount paid up thereon		
116,133 Common shares of no par value		
Issued		
622,536 Preferred shares, note 3	622,536	700,353
77,817 Common shares	281,671	281,671
	904,207	982,024
RETAINED EARNINGS	896,764	716,012
TOTAL SHAREHOLDERS' EQUITY	1,800,971	1,698,036
	<u>\$3,827,503</u>	<u>\$3,396,916</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Year Ended 31 December 1976

	1976	1975
BALANCE, BEGINNING OF YEAR	\$ 716,012	\$ 604,498
Net income for year.	228,221	161,317
	944,233	765,815
Cash dividends paid during the year		
Preferred shares	39,687	42,021
Common shares	7,782	7,782
	47,469	49,803
BALANCE, END OF YEAR	<u>\$ 896,764</u>	<u>\$ 716,012</u>



Finlayson Enterprises Ltd.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended 31 December 1976

	1976	1975
SALES (net), note 4.	\$7,565,722	\$6,634,878
Income from operations for the year, before accounting for the undernoted items	\$ 383,454	\$ 209,274
Less: Interest on indebtedness not initially maturing within one year. . .	2,543	7,375
Provision for depreciation and amortization of fixed assets	54,239	45,596
	56,782	52,971
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	326,672	156,303
Income taxes—current.	118,378	70,986
—deferred.	24,612	—
	142,990	70,986
INCOME BEFORE EXTRAORDINARY ITEM.	183,682	85,317
Extraordinary item		
Income taxes recovered on loss carry forward.	44,539	76,000
NET INCOME FOR YEAR, note 6	\$ 228,221	\$ 161,317

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended 31 December 1976

SOURCE OF FUNDS

	1976	1975
Operations		
Net income for year	\$ 228,221	\$ 161,317
Items not requiring an expenditure of funds		
Depreciation and amortization	54,239	45,596
Deferred income taxes	24,612	—
FUNDS OBTAINED FROM OPERATIONS	307,072	206,913
Proceeds on disposal of fixed assets	8,484	6,739
TOTAL FUNDS OBTAINED	315,556	213,652

APPLICATION OF FUNDS

Acquisition of fixed assets	118,037	66,243
Increase in cash value of life insurance policies.	2,900	2,832
Reduction of long term debt	—	61,498
Redemption of preferred shares.	77,817	—
Dividends paid during the year		
Preferred shares.	39,687	42,021
Common shares.	7,782	7,782
TOTAL FUNDS APPLIED.	246,223	180,376
INCREASE IN CONSOLIDATED WORKING CAPITAL	69,333	33,276
Consolidated working capital, beginning of year	1,456,112	1,422,836
CONSOLIDATED WORKING CAPITAL, END OF YEAR.	\$1,525,445	\$1,456,112

CONSOLIDATED WORKING CAPITAL

Current assets	\$3,527,365	\$3,154,992
Current liabilities	2,001,920	1,698,880
	\$1,525,445	\$1,456,112



Finlayson Enterprises Ltd.

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 1976

1. **PRINCIPLES OF CONSOLIDATION**
The consolidated financial statements include the accounts of all subsidiary companies each of which is wholly-owned.
2. **NOTE PAYABLE**

	1976	1975
On demand, 9.25%, payable to a Director of the Company	<u>\$115,000</u>	<u>\$155,000</u>
3. **SHARE CAPITAL**
During the year 77,817 preferred shares were redeemed for a cash consideration of \$77,817.
4. **CLASSES OF BUSINESS**
As required by the Canada Corporations Act the Directors are of the opinion that the proportion of sales from the different classes of business is as follows:

	1976	1975
Textiles	\$5,763,918	\$5,087,452
Cosmetics and toiletries	1,801,804	1,547,426
	<u>\$7,565,722</u>	<u>\$6,634,878</u>
5. **REMUNERATION OF DIRECTORS AND OFFICERS**
As defined in the Canada Corporations Act the aggregate remuneration of the seven Directors of the Company as Directors amounted to \$4,000 (1975—\$2,000) and the aggregate remuneration of the six Officers of the Company as Officers amounted to \$115,031 (1975—five—\$93,000). Four of the Officers of the Company are also Directors.

As defined in The Securities Act (Manitoba) the aggregate direct remuneration paid or payable to Directors and Senior Officers amounted to \$241,414 (1975—\$204,041).
6. **EARNINGS PER COMMON SHARE**

	1976	1975
Income before extraordinary item	→ \$1.86	→ \$0.56
Extraordinary item	→ 0.57	→ 0.97
Net income for year	<u>→ \$2.43</u>	<u>→ \$1.53</u>
7. **FOREIGN EXCHANGE**
Liabilities in foreign currencies are converted at the rates of exchange in effect as at 31 December 1976.
8. **CONTINGENT LIABILITY**
Certain of the group companies are appealing from a decision of the Tax Review Board upholding income tax re-assessments totalling approximately \$200,000 including interest for the years 1966 to 1968. No provision has been made in the accounts for these re-assessments as it is the opinion of counsel that the Company should probably be successful in having the re-assessments set aside.
9. **UNFUNDED PENSION BENEFITS**
The Company's liability under its employee pension plan for unfunded past service amounted to approximately \$15,900 which is required to be funded in equal annual instalments of approximately \$2,300 over the next seven years.
10. **ANTI-INFLATION LEGISLATION**
The Company is subject to dividend restrictions under the Anti-Inflation Act. For the period 1 January 1977 to 13 October 1977, dividends at the regular rate can be paid on the preferred shares and a maximum of \$0.22 per share can be paid on the common shares.
11. **COMMITMENT**
The Company has leased premises to 30 November 1986 at an annual net rental of \$80,367 plus taxes and other occupancy costs.

